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London

1894

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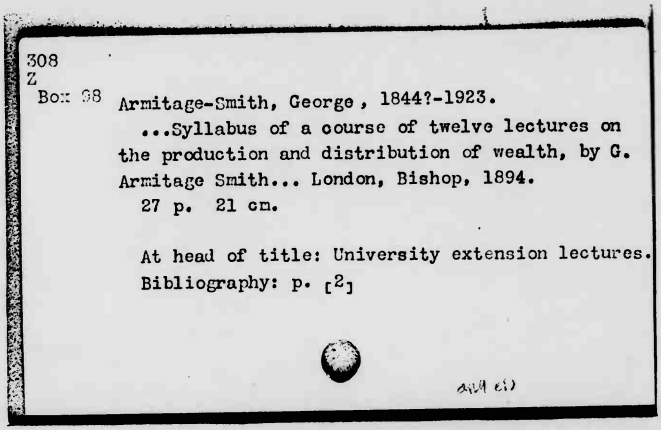

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UNIVERSITY EXTENSION LECTURES.

SYLLABUS

OF A

Course of Twelve Lectures

ON

THE PRODUCTION AND DISTRIBUTION OF WEALTH.

BY

G. ARMITAGE SMITH, M.A. (Lond.).

PRINTED BY W. BISHOP, AT 13, CURSITOR STREET, LONDON, E.C.
[HAMPTON & CO.]

1894.

PRICE SIXPENCE.

METHOD OF CONDUCTING LECTURES AND CLASSES

Held under the University Extension Scheme.

Each Lecture will last one hour, and on the same occasion a Class will be held for those Students who wish to study the subject more thoroughly. The object of the Class is to give the Students an opportunity of coming into personal contact with the Lecturer, in order that they may the better familiarise their minds with the principles of the subject, and get their special difficulties explained. The teaching in the Class is conversational.

Students should make as much use as possible of the opportunity afforded for discussion in the weekly Classes, as the proper comprehension of the Lectures largely depends upon the systematic removal of difficulties *as they arise.*

The answers to questions set at the Lectures should be clearly written upon one side of the paper only (foolscap paper preferred), and a wide margin should be left upon every page for the remarks of the Lecturer. At the head of the first sheet the Student must write his (or her) name, including at least one Christian name, and also the name of the Lecture-centre. These papers must be sent so as to reach the Lecturer at latest the day before the succeeding Lecture, and they will be returned to the Students the following week. The answers will go by book post, the rate being ½d. for every 2 oz. or part of 2 oz., in an *unfastened* envelope, or in a packet open at both ends. In either case it should be endorsed "M.S. only," and must contain nothing of the nature of a letter.

This weekly work is an essential part of the University Extension system, and no Student will be eligible to enter for the Examination at the end of the Course who has not (1) attended at least two-thirds of the weekly Lectures and Classes, and (2) written at least two-thirds of the weekly papers. The award of Certificates depends upon the weekly work, as well as upon the result of the final Examination.

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.....**Centre.** .....**Term, 189**...

Name in full .....
(*Christian and Surname.*)

Address ... .

Title of Course .....

To be filled up and sent to the Local Secretary before the last Lecture of the Course, in order that adequate preparation may be made for the Examination.

INTENTIONAL SECOND EXPOSURE

METHOD OF CONDUCTING LECTURES AND CLASSES

Held under the University Extension Scheme.

Each Lecture will last one hour, and on the same occasion a Class will be held for those Students who wish to study the subject more thoroughly. The object of the Class is to give the Students an opportunity of coming into personal contact with the Lecturer, in order that they may the better familiarise their minds with the principles of the subject, and get their special difficulties explained. The teaching in the Class is conversational.

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TEXT-BOOKS:

JEVONS. *Primer of Political Economy.* 1s. (Macmillan.)
MARSHALL. *Economics of Industry.* 3s. 6d. (Macmillan.)
JEVONS. *State in Relation to Labour.* 2s. 6d. (Macmillan.)
WALKER. *Political Economy.* 12s. (Macmillan.)

OTHER BOOKS:

MILL. *Political Economy.* 3s. 6d. (Longman.) *Or*,
FAWCETT. *Political Economy.* 12s. (Macmillan.)
MARSHALL. *Principles of Economics.* 12s. 6d. (Macmillan.)
KEYNES. *Scope and Method of Political Economy.* 7s. (Macmillan.)
BAGEHOT. *Postulates of Political Economy.* 3s. 6d. (Longman.)
COSSA. *Guide to Study of Political Economy.* 7s. (Macmillan.)
SIDGWICK. *Political Economy.* 14s. (Macmillan.)
PRICE. *Political Economy in England.* 2s. 6d. (Methuen.)
WALKER. *The Wages Question.* 12s. (Macmillan.)

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THE PRODUCTION & DISTRIBUTION OF WEALTH.

LECTURE I.

SCOPE AND AIM OF ECONOMIC SCIENCE.

Political Economy is a Science of wealth. It inquires into its **nature** and the **causes** which govern its production, distribution, and exchange. It arises from the necessities of man. The problem of subsistence cannot be ignored. While political economy professes to study wealth with a view to rendering the supply of wealth more easy and general, it aims at removing poverty by finding out the facts relating to human well-being and discovering the causes of want.

A large part of the business of daily life is concerned with obtaining necessaries, comforts, luxuries, &c., and with their consumption. The physical sciences contribute largely to man's gratification; economic science investigates more particularly the motives and conduct of men themselves as regards the phenomena of wealth and poverty.

Economic motives and conditions are amongst the most powerful forces which influence human conduct, form the character and affect the condition of nations, and in the present day they are especially prominent.

Political Economy is called a science because it seeks for **causes,** and aims at **explaining** facts; its subject matter is very complex; the inquiry is difficult because conduct proceeds from many motives, and they are not easy to discover and estimate. But some motives are fairly constant and **measurable**: all men desire some wealth, and the value of desires is measured by what people will give in order to gratify them.

Economic Laws are general statements about these values; they are less **exact** than the laws of physical science, and are called **tendencies.** They depend much upon the circumstances of the time and the character of the people; they are relative and explain what we may expect to happen in **normal** conditions, but they are counteracted in special cases.

Political Economy is a branch of **Social Science** and is in close relation with other studies of the Social Organism and of man as an element of society.

As in the physical sciences we can better ascertain the laws of one set of phenomena by **abstracting** that group, so in Economics man is studied in his relation to wealth. The hypothesis of the economic man.

Politics, the science and art of government requires aid from Economics, since most political questions contain an economic factor.

Ethics, the science of conduct as right or wrong, is very closely related to Economics: in many social questions the economic and ethical problems are almost inseparable.

Objections to Economics:—

(a) That economic knowledge comes by contact with the facts of life without any special study: common sense and experience can solve all economic questions.

(b) That a study of wealth is selfish and ignoble ("the dismal science"). This overlooks the necessity of wealth, the duty to provide for families, and the fact that wealth is expended on other than selfish ends.

(c) That the science is dogmatic. But Political Economy is not a creed or a gospel, it is an investigation to find truth and it is progressive, ever studying new facts and institutions. (Laws are indicative, not imperative.)

The **Methods** of inquiry are the ordinary scientific methods of Induction and Deduction. Observation, historic inquiry, statistics, examination of different forms of society, &c., and appeal to

general principles of human nature, which supply some *a priori* basis for reasoning. Some problems of society are constant, others change with the conditions. Some forces very active in past ages have declined; military and religious movements are less intense. The most exciting questions now in all civilized countries are social and economic.

History: Little regard for Economics in ancient states and in middle ages. Its growth with free enterprise, commerce, and the development of industry. Especially a science for a manufacturing and business people. The conditions of modern industry, population, education, and political freedom make economic inquiry a necessity.

LECTURE II.

WEALTH.

The **Terms** employed in Economics are in popular use; they are ambiguous and need defining for scientific purposes.

Wealth means everything which has **Exchange-value:** not the same as riches, and excludes some useful things.

Value in **use** and in **exchange:** the latter only is economic value, and implies three attributes:—

The object must

(a) be desired, have utility;

(b) be limited in supply, cost something to acquire, and be appropriated;

(c) be transferable, able to be sold or exchanged.

The **Utility** of a thing is the service it renders which makes it desirable (to increase pleasure or to reduce pain). Utilities that are free (like air and light) have no economic value: those that are scarce and desirable attract labour to create them because of their value. The labour is not the cause of their value, for rare things which cost little labour may be valuable, and labour may be expended upon things which are worthless.

Time value: Place value: Disutility of things hurtful, out of place, or in excess.

Material wealth consists of matter appropriated to serve human purposes; its forms are manifold and depend upon knowledge; altered by man into **commodities.**

Personal wealth (non-material or potential) consists of human powers or properties such as strength, skill, knowledge, honesty, which give **services** and conduce to material well-being.

Supply consists of the commodities or services offered at a price.

Demand consists of commodities or services required at a price. Both vary with the price (general purchasing power, money), and they tend to an equation at some price.

Law of Diminishing Utility: Utility diminishes with increase of quantity—Total utility and marginal utility.

Law of Variety: As wants are satisfied new wants arise without limit, and lead to fresh demands. The aim of **Productive** activity is to satisfy wants with the minimum of effort.

Production: There are three factors or agents—Land, Labour, and Capital. The product incorporates them all in different degrees.

Nature supplies materials and forces. Some natural agents are unlimited, others are limited in supply.

Labour (man) only moves things and alters them. Man cannot create matter, but he rearranges it, and is only creative in thinking, inventing, and constructing.

Capital includes all the instruments and materials accumulated by man for support and aid in his work.

Wealth is a complex effect of many contributions from these three agents. Fallacy of overrating any one.

The Physiocratic Doctrine unduly emphasised Land.

Mercantilism tended to make money the chief form of wealth, and led to false ideas as to the advantages of commerce.

Adam Smith (1776) exposed the errors of Mercantilism, shewed the true functions of money and the merits of free enterprise.

During this century first capital and then labour have been put forward as the chief force in production.

Necessaries and Luxuries: No exact definition; the things are relative to circumstances. As people advance in comfort their ideas change. Luxuries are not necessarily uneconomic: they may tend to greater efficiency and stimulate to production and progress. They form part of the motive to industry and add to human happiness. Some **kinds** of luxury are injurious and their consumption diminishes wealth.

Individual wealth, national wealth, and wealth of nations.

LECTURE III.

LABOUR.

By **Labour** is meant the application of man's powers to nature's resources. The object is efficient production—results.

Labour is lost or misapplied which yields no result.

Productive and unproductive labour: the distinction not always clear. Various kinds of unproductive labour—accidents, mistakes, making work, foolish or hurtful schemes.

Productive Labour adds to utilities, gives commodities or services.

Superiority of mental labour, great efficiency of intelligence, inventiveness, organization.

Labour (exercise of skill or faculty) is a source of happiness when not excessive or severe.

Productive labour is either direct or indirect.

Indirect labour is of five kinds:—On materials, tools, distribution, protection, education. In advanced countries labour becomes more indirect with the larger use of capital and more complex machinery.

Efficiency of labour is affected by:—

(1) Physical conditions, environment, soil, climate, &c.

(2) The attributes of man: his skill, intelligence, industry,

and morality. These, in turn, are affected by his surroundings, food, education, sanitary conditions, prospects, hopefulness, free enterprise, &c.

(3) The freedom, security, and independence afforded by the Government: the stability and solidarity of society.

(4) The economical organization of labour, co-operation and division, use of economic agents, such as large production, money, credit, &c.

Division of Labour:—

(1) **Advantages** in increasing skill and dexterity, inventions, classifications, specialized ability, economy of time, tools, services; production in the best place and conditions.

(2) Limits in the circumstances of the trade and in the power of consumption.

(3) **Defects** of great differentation:—monotony and routine, lack of versatility, dependence of groups, instability of trade and loss of employment, &c. Nature of remedies for these evils.

Machinery: Effects on severity of toil and life of labourer. Results to efficiency. Supply of product and cost. New industries and subsidiary employments. Intelligence of labourer and his reward. Hours of labour. Drawbacks and cases where sudden introduction of machinery injures the labourer. Methods for minimizing these defects.

LECTURE IV.

CAPITAL.

Origin of capital is in past labour and **saving**. Consumption must be less than production. Storing up for future use.

Function of capital to provide subsistence for labour, and tools and materials for future production. Capital bridges over the interval of time involved in complex production, and renders labour far

more efficient, eases toil, and gives a reward to those who refrain from immediate consumption *in order to create it.*

Forms of capital are numerous; and depend on the industry and the circumstances of the country.

"Industry is limited by capital." "Wages are advanced from capital." Both propositions true within limits.

Individual and Social Capital. Producer's and Consumer's Capital.

Destruction of capital and hindrances to its efficient use are a loss to mankind.

Consumption: Productive and unproductive, the latter a popular fallacy. Wealth is produced to be consumed, but there is a difference in the methods. Compare effects of a diversion of expenditure from drink to furniture and books. Saving is not hoarding.

Divisions of Capital: Fixed and Circulating; Wage and auxiliary; specialized, moveable. Effects of increase of capital to labourers—in nature of work, intelligence, wages, severity.

Loans of capital by poorer countries and young colonies Economic value of imported capital to countries like India.

Growth of Capital determined by (1) power to save, (2) the motive or will to save.

(1) Depends on natural circumstances, efficiency of labour, stability of government. Compare Great Britain and Egypt.

(2) "The effective desire" to save depends on character, education, habit, means of investment, security implies prudence, foresight, regard for family, ambition to rise, &c.

Savings formerly from rent and profits—now also from wages. Effect of decline of profits on capital.

Capital renders possible great undertakings—railways, steamships, large factories and mines, ship-canals, &c. Much destruction and waste of Capital—war, fire, shipwreck, rash speculation, mistaken schemes, foreign loans, &c.

Importance of **Personal Capital**: An investment in individuals in form of skill, knowledge, vigour, &c. Many parents,

especially the professional classes, make large sacrifices to give this capital to their children. Highly productive, an element in progress. The State in various ways seeks to increase this capital by education, &c.

LECTURE V.

SUPPLY OF LABOUR. LAW OF MANUFACTURES.

Labour is Increased:—

(1) By any addition to efficiency (skill, invention, intelligence, &c.).

(2) By an increase of numbers.

Many Causes affect the increase of population in a country. In some an absolute limit to means of subsistence; the standard of comfort adopted; action of the State in stimulating population; the modes of industry (rapid growth after Industrial Revolution); the method of land tenure—peasant proprietors increase slowly. At one time in England the marriage rate varied with the price of corn, and population has been regarded as the measure of the prosperity of a nation.

There is **no universal law** of population. Compare England of to-day and a century ago, or France, United States, India, China, Ireland, the Colonies, as regards density and rate of increase.

Malthus (1798) believed in a tendency for population to grow up to the means of subsistence and reduce the standard of living. His positive and preventive remedies. Special causes then existing, old poor law and new industrial system, war, &c.

Counteracting Agencies: New Poor Law (1834), Free Trade, Inventions, Education and improved standard of living, Emigration, greater efficiency of labour, Factory Legislation, Railways and Mobility of Labour.

Importance of efficiency and efforts to improve the **quality** of the labourer. Greatest increase among the least efficient and industrious classes. Slower increase of artisan class. Effects of immi-

gration of weak races; voluntary relief; Poor Law relief and other measures. Need for moral teaching as to responsibility of parents, and of forces to stimulate a desire for a higher standard of life.

Large Production is the outcome of the discovery of steam power and mechanical invention. They have worked a revolution in manufacturing industries and the organization of industry.

Economic results of producing on a large scale.

Law of Increasing Returns and reduction of cost. Cheapness and abundance, new commodities, and higher buying power of wages. Production of works impossible on a small scale.

Growth of towns, centralization, and subsidiary industries.

Aggregation of capital. The Joint Stock system and Limited Liability. Stimulus to saving from wages and investment.

Rise of a class of "captains of industry," who command capital, organise the working, and direct the labour in great undertakings. Many new results of combination in companies, trusts, syndicates, co-operative societies, &c.

Comparison of advantages of small and large production in agriculture is rendered difficult by the difference in circumstances and products. Each has its merits.

LECTURE VI.

LAND. RENT.

There is an absolute limit to land in amount and in productive capacity; it also varies greatly in fertility. Up to a certain point on any land an increased amount of labour and capital will yield an increasing return. Beyond this point of maximum efficiency a **Law of Diminishing Return** sets in. Every addition to produce is then obtained at a greater proportionate cost.

This is called the **Law of Agriculture**, and it applies to all kinds of agricultural produce. It is a **tendency** for increased demand to raise prices. It applies also to fisheries, mining produce, and nearly all raw materials.

The law is demonstrated in agriculture by recourse to land inferior in situation and fertility. There is a point beyond which it is not profitable to cultivate any plot in given circumstances. The law is a **Law of Scarcity**, and forms a real limit to production. The limit is, however, elastic. The tendency is opposed by many forces: discoveries, inventions, increased skill, extensive cultivation, and importation from foreign lands, cheap communication, emigration—every step in science which obtains more from nature or opens up distant countries.

Though the **tendency** has been counteracted and prices have fallen, none the less it is a genuine principle, and the struggle is continuous. Manufactured articles fall under both laws. Increased demand may increase the cost of materials, but manufacturing on a large scale may yield great economies and lower prices.

Economic Rent follows from the law of Diminishing Return and the differences in fertility and situation. Rent is **surplus** profit arising from the superior land, and it measures the superiority of any land above that which only just pays the expenses of production. Such land pays no rent, and is said to be on the margin of cultivation.

Rent is thus a differential advantage, paid under competition to the owner of the superior land.

Rent is not an element in the cost of production; cost is measured by the expense of production in the worst circumstances of production. This margin depends on demand and supply—that is, the price.

Custom modifies rents greatly. Also rents generally include farm buildings and improvements—capital sunk in various ways. Much rent is interest on capital expended in reclaiming, enclosing, fertilizing, &c.

Defect in Ricardo's theory that "rent is paid for the original and indestructible powers of the soil." Prairie land yields no rent. Peasants who cultivate their own lands do not consider the "margin."

The principle of rent has a wide application in all cases where some productive agent is superior to others, and the cost of production is not equal. Patents, fishing, shooting, water power

differential royalties in mines, &c., and wages of exceptional skill, ability, or talent, contain an element which resembles rent.

In the rent of houses, factories, &c., this theory applies only to the ground rent; the remainder is interest on capital expended on the building.

Influence of population, improvements, and importation on rents.

Land Systems: English tenant farming. Competitive rents and leases. Agricultural Holdings Act. Allotments. Land Nationalization.

Peasant Properties, advantages and defects.

Metayer System. Ryot Tenure in India.

Cottier Tenure in Ireland and legal rents.

LECTURE VII.

VALUE.

Value is a relative term, and means ratio in exchange.

Price is value expressed in some common measure—money.

Law of Diminishing Utility: The degree of utility varies with the quantity of commodity, and ultimately decreases as that increases. (Jevons.)

The Marginal or Final Utility of a commodity to a purchaser is measured by the price which he will pay for that portion which it is just worth his while to buy. Consumer's Rent.

A Market includes all buyers and sellers of a commodity who can be brought into relation, so as to influence the available supply or demand (and thereby the price) at any one time. Conditions of a **perfect market**. Good market. Bad market.

Demand and Supply are not fixed quantities. They vary with the price, which seeks to equate them and produce equilibrium. Disregarding money or general purchasing power, every article is at the same time both Supply and Demand.

The price varies with any circumstance which affects Demand or Supply (season, fashion, accidents, discoveries, &c.).

Some things are limited in supply, others are subject to artificial or natural scarcity. They have a **monopoly value** regulated by Demand. Their rise in price follows no definite law.

In other cases the supply is practically unlimited; such goods have a **normal value** which is dependent on their cost of production (in the least favourable circumstances). Market Value is the price at which the thing is actually sold, and varies continually, the fluctuations being about Normal Value, to which market value is always tending.

Fluctuations in Market Values are caused by—

(1) Uncertainty of Supply—some goods can be stored, others deteriorate quickly.
(2) Seasons, and the action of speculators.
(3) Fashion, war, or any circumstance which causes rapid changes in the demand.
(4) Possibility of substituting other articles, and cases of joint production (beef and mutton, gas and coke).
(5) Elasticity of Demand. Necessaries or luxuries. Amount of specialized capital and labour involved in production, &c.

Cost of Production is the sum of the efforts and abstinences of labour and capital incurred in the production. The price of these efforts and abstinences is called **Expenses of Production**. This may be analysed into—

(1) Raw materials (previous wages and profits).
(2) Wages of labour.
(3) Ordinary profits of producer (excluding that which is properly rent of ability).
(4) Depreciation of machinery, plant, and insurance against risk.
(5) Cost of carriage.
(6) Rates, taxes, and *minimum* rent (*not* economic).

Normal Value is that which on the average would be realized under the free play of competition. It implies continuous production and a fairly steady demand, and generally a large outlay of fixed capital.

Normal Value is not fixed—over a period of time it moves slowly. This arises from two causes—the expenses of production alter, and the demand varies.

Inventions affect cost of materials and carriage, rate of interest falls, efficiency increases, wages change, &c. Again, any alteration in demand, by affecting the scale of the industry, calls into play the Laws of Increasing and Diminishing Return.

International Exchanges depend upon Reciprocal Demand —that is, the demand of each country for the goods of the other.

LECTURE VIII.

DISTRIBUTION.

Distribution of Wealth is much dependent on social organization, and is regulated in each case by customs, institutions, and laws.

The tribe, clan, slavery, feudalism, village community, religious society, family, illustrate different modes of sharing wealth.

Production is affected much by the method of distribution.

The system of **Private property**, based on free enterprise and the family unit, has grown up with freedom and civilization. The progress has been from status to contract (Sir H. Maine), from village communities to individualism (Spencer). Commerce and manufactures have aided the transition.

This system, which implies competition with some restrictions, gives the greatest stimulus to energy, enterprise, and thrift, which are the marks of a wealthy society. It allows great inequality of wealth and some poverty.

The various forms of Collectivism (Communism and Socialism) seek to substitute the State or some Society for the family unit. They are based on an ideal of equality. It is objected that they repress individual effort, prudence, thrift, and originality, and tend

to a low level of uniformity, and that they would require for success a morality much higher than that prevalent.

There have been many speculations on such an Ideal State from the time of Plato, and many experiments have been tried by social reformers (St. Simon, Fourier, Owen, &c.) and others; they are usually based on some religious idea, or on the hypothesis of human perfectibility in a suitable environment.

Modern Socialism looks to the State to extend Collective production and ownership of wealth: its chief aim is more uniform distribution. Voluntary Combination by Trade-Unions, Co-operative Societies, Industrial Partnerships, &c., are more calculated to strengthen self-reliance and the forces that make for increase of wealth.

All systems have some defects. The expediency of Free Enterprise shewn by reference to its economic results. Many checks on the abuses of private property exist, and they can be extended.

Under a system of Free Industry the shares of wealth are called: wages, interest, profits, rent (and taxes).

Competition is the chief method of determining the shares under a system of free contract. It is much modified by Custom Combination, Authority of Law and Local Control, &c., and limits can be placed to its operation where it is found to work harshly or to produce waste and over-production.

Economics is *not* a gospel of Laisser faire. This doctrine was a natural revolt against excessive interference of Government; it claimed freedom of contract and natural liberty instead of regulation of wages, interest, and work, protective systems and hindrances to the free movement of labour and combination. But as long as selfishness, ignorance, weakness, &c., exist, absolute freedom of contract will not work out natural justice, and Government must interfere in many ways for the defence of the weak.

Economic study has, however, changed the method and aims of Government interference. Adopting non-interference as a general principle, it is found expedient for the State to intervene where the action of individuals might clash with public utility. The balance of the advantage and disadvantage of State interference has to be decided in each special case.

Examples of Cases for State Interference:—

(1) To protect life, property, health, and morals. (Police, Docks, Arsenals, Sanitation, Disease, &c.)

(2) To diffuse education and information. (Education Acts, Libraries, Museums, Trade Statistics, &c.)

(3) To provide checks against unequal contracts, injustice, and oppression of the weak. (Factory Acts, Regulation of Mines and Workshops, Labour of Women and Children, Cab Fares, Tolls, Adulteration, &c.)

(4) Regulation of matters in which individuals are not competent judges, or which would become monopolies. (Coining, Currency, Sale of Poisons, Trade marks, Registration, Post Office.)

(5) Measures to advance thrift and stimulate self-help. (Savings' Banks, Post Office Insurance, &c.)

(6) Cases where combined action is necessary to the general utility, and cannot be voluntarily secured. (Roads, Banking-out Sea, Local Gas and Water, Municipal Interests, Sanitation, &c.)

LECTURE IX.

INTEREST AND **PROFITS.**

Profits is the term usually applied to the Share of Capital in the distribution of Wealth. This is analysed into Interest, Insurance against risk, and Wages of management. The Capital may be borrowed by the organiser of industry (entrepreneur); interest is then paid to a separate person.

Under competition these shares are determined by the laws of value.

(1) **Interest** is the sum paid for the **use of capital.** The rate of interest depends upon the **supply** of loanable capital, and the **demand** for loans. Gross and net interest.

Interest has been called "Reward of abstinence"; is expedient to stimulate saving and lending.

Other motives to accumulate capital—education, habit, prudence, regard for children, &c.

Usury Laws: Their origin and results.

The **rate of interest** (marginal utility of capital) tends to fall with the advance of civilization. The tendency to a minimum. (Mill.)

The rate tends to the same level in one country with equal risks; but it varies in different countries, shewing that competition is not perfect. For many reasons Capital will not migrate with complete readiness, except under the excitement of speculative mania.

(2) **Risk:** Rate of interest is measured by the best securities (Government stock). Higher rates imply risks (Trade and Personal), which vary with the nature of the investment. Insurances measure some risks (fire, sea, &c.), but in most cases the risks are incapable of true measurement, *e. g.*, loans to foreign governments, mines, and productive undertakings generally.

(3) **Wages of superintendence**—the largest and most variable factor—depends on skill in organizing—the business faculty. The successful employment of capital on a large scale demands special knowledge (both technical and commercial), resource, energy, promptitude, and administrative power. Men who combine these qualities command the use of capital and become **entrepreneurs.**

Entrepreneurs of ordinary talent make low profits; those with a genius for business make high profits. Their ability and opportunity have a kind of **monopoly value,** hence this factor in profits is analogous to **rent,** which is the price paid for superior fertility.

Walker distinguishes between ordinary wages of management and **profits.** The latter is an additional value due to superior efficiency, and not properly an element in cost of production,

which is measured by the expenses of production where it is absent. Wages are not lower where this profit arises; hence it is not a deduction from wages.

No equality in **gross** profits. Low rate of profits in large industries. Large supply of business power and keen competition among employers of borrowed capital.

LECTURE X.

WAGES.

Wages are **earnings** by labour of **any kind.** They are the **labourers' share** of the produce. Bought up in money by the employer they may be called the **discounted value** of the produce of labour. Workmen in one sense make their own wages; but, since the product is not usually realized before wages are paid, wages are mostly advanced from capital.

Nominal and **Real** Wages. The latter vary in amount with the purchasing power of money. Cheapness raises real wages when it arises from increased efficiency. (Inventions, Skill, &c.)

Wages depend—

(1) **Ultimately** upon the efficiency of production—that is, the amount to be shared; and this is determined mainly by the strength, intelligence, and morality of the various producers.

(2) **Directly** upon the laws of Supply and Demand— that is, the number of labourers in each occupation and the demand for that kind of work, together with the capacity of the labourers to bargain.

Wages react upon Supply and Demand just as prices do in the case of commodities, only the action of wages is slower.

Examination of the **Wage-Fund** theory (Mill) and the **Iron law** of wages (Lassalle).

Low wages usually yield poor work and inefficient workmen;

thus badly paid labour is **dear,** and tends to become worse by its effect on the workers and their children.

Good wages tend to raise the quality of the labourer and his work, and are consistent with a **low cost of labour.** Therefore Profits and Wages do not vary inversely. The relation of population to wages depends on whether that population consists of efficient workers.

Unskilled labour wages are low; the work is less productive than skilled. The **supply** is large, and is augmented by failures in other occupations; the **demand** tends to diminish with the growth of machinery and all forms of progress.

The **supply of unskilled labour** is influenced by the **standard of comfort** usual—this is variable, but it affects population. Higher wages may result in an improved standard or an increase of numbers—if the former, there will be a permanent gain in efficiency; if the latter, there is no advance.

If a fall in wages already low brings down the standard of living, it produces a permanent **degradation of labour.**

Skilled Labour: Various circumstances limit the supply in different occupations, and thus tend to raise wages. If a task is difficult or dangerous, demands skill, delicacy, or education, there are fewer competitors, and wages rise proportionally. Some gain a monopoly wage.

Adam Smith's five causes of variations in rates of wages. All act through supply and demand.

Special disadvantages demand an equivalent, and special advantages permit a corresponding lower rate.

The **net advantages** of an occupation sum up these special circumstances, and, assuming perfect freedom of choice and power of changing occupation, the advantages and disadvantages tend to equality.

Supply of skilled labour is limited by many causes: The circumstances of parents and their regard for their children, environment, industrial qualities or other ability of children, trade restrictions, aid to education, &c.

Demand for skilled labour in each occupation depends on

need for that special product, its utility, cost, wealth of society, growth of capital, and wants of other occupations.

Wages tend towards equality in trades on the same industrial level. Non-competing groups.

Competition of labour is very imperfect. Wages vary in the same occupation in a country, and still more in different countries. Causes and tendencies which modify these inequalities.

Fluctuations in wages and their causes: Speculative trade, over production and depression, fashion, seasons, labour disputes, &c.

Wages of Women: Their rates, and the causes which govern them.

Tendency of **real wages** to rise, and of labour to become more efficient.

Comparison of wages in different periods and different countries. Need to take note of **real** wages, the purchasing power of money; hours of labour; its severity and regularity; duration of working life; the comparative difficulty and cost of acquiring an occupation; any special circumstances which enter into net advantages.

LECTURE XI.

ORGANIZATION OF LABOUR. TRADE-UNIONS.

Legislative **interference** with wages and labour. The **Statute of Labourers** (1349); the **Statute of Apprentices** (1562); the **Allowance** System (1796):—were some attempts to regulate wages. They failed in their aim, and all did much harm.

Craft Guilds of the middle ages—their character, success, and decline.

Combination Laws—their injustice and repeal (1825).

Trade-Unions fully recognised by Acts of 1871 and 1876.

Their functions and aims: (1) friendly societies, (2) organizations to raise wages and advance the various interests of their members.

The **Factory System** favoured combination and rendered it necessary. Men associated under like conditions naturally unite for their common advantage. Combinations in Professions and by Employers.

Results: Men are placed on an equality with their employers in arranging the terms of the contract between Capital and Labour; they can secure the maximum wage which the state of trade admits, and can further influence the conditions of work, hours of labour, &c.

Neither Trade-Unions nor Combinations of Employers can **ultimately** over-ride economic laws, though either may temporarily secure an advantage by monopoly. Judiciously worked, Trade-Unions should secure fair competition and just terms.

Mistaken Methods: Resistance to machinery and more efficient processes; limitation to numbers entering a trade; limiting work; a uniform rate; piece-work; cases where one trade benefits at the expense of another.

Beneficial Results of Unions: Benefit societies; mutual aid; collective action and education in co-operation; means of spreading information respecting trade and of equating supply and demand for labour; aid to Factory Legislation; representation in Parliament; influence on public opinion; a thoroughly representative body to negotiate with employers; a means for providing Boards of Conciliation and Arbitration.

Combinations of women, agricultural labourers, and unskilled labourers.

Strikes and Lock-Outs: Instruments of industrial warfare, justifiable only when all other means of settlement fail. Often due to inadequate knowledge of circumstances of trade. Wasteful and ruinous to all concerned; produce depression and irregularity of employment, rise in prices, and injury to other trades.

Features of the New Unionism: Greater hostility to capital; frequent strikes; tendency to ignore economic forces, and to look to Politics for the solution of Economic problems; socialistic.

The doctrine that Trade-Unions by fixing wages can regulate prices ignores the circumstances of demand and foreign competition; cannot be successfully applied all round.

Probable effects of the regulation of hours of labour by law. Arguments for and against the eight hours movement.

LECTURE XII.

PROFIT-SHARING AND CO-OPERATION.

Trade-Unions have not removed the difficulties between Labour and Capital. Recent conflicts have been severe and frequent, have entailed much suffering and loss, and have dislocated trade generally.

The effective remedy must be one which will reconcile the interests of Capital and Labour; it involves both economic and moral forces.

VARIOUS METHODS.

1. **Arbitration:** Deals with cases of actual strife by calling in experts or authorities as judges; a kind of legislation, temporary and not satisfactory—does not remove the *cause*, and cannot be enforced.

2. **Conciliation:** Much more effective. A permanent committee of employers and men to discuss difficulties as they arise and avoid conflicts by mutual concession. The sliding-scale system.

3. **Profit-sharing:** A system for giving the men a share in annual profits, and thus cementing the union between employers and men—very successful in many cases. (Leclaire, Godin, &c.) Opposed (1) by Trade-Unions, which see in it a rival; (2) by employers, who are unwilling to make their profits public.

The system results in great economy of power and materials—in efficiency and good feeling, security and provision for old age. Best applied where labour is skilled and superintendence costly. Capable of wider application and extension.

4. **Industrial Partnership**: Employés take shares in the capital, and have a voice in the management. Difficulties.

6. **Co-operation** (*Distributive and Industrial*):—

(a) **Distributive**: Very successful and comparatively easy. Many advantages—economic, moral, and social.

(b) **Productive**: Greater difficulties in specialization of capital and in management. More speculative, and liable to fluctuations. As yet successful only in a limited degree, but capable of much wider development.

5. **State and Municipal Production**: Has a field in the case of national defence (navy and arsenals), and also in some monopolies (post office), and in matters which demand local collective action (sanitation, water, light, &c.); and also in backward countries where there is little enterprise or capital (India). Tends in cases of ordinary industries to check enterprise—is usually more costly, and yields less variety and originality than private production. Experience shows that it involves many difficulties and dangers, and leads to increased taxation.

Jevons' four conditions for State production. State railways in the Colonies and in other countries.

Present experience proves that the functions of government are best employed in general control, and in legislation which confers the fullest advantages and freedom on all without destroying that free enterprise which is found to be a prime force in all progressive communities.

QUESTIONS.

1. Discuss the character of Economic laws, and point out how they differ from laws such as those of Chemistry and Physics. Justify the claim of Economics to be a science.

2. With what Sciences is Political Economy most closely related? Give illustrations, and shew in the cases selected the advantages of a separate study of Economic tendencies.

3. Explain fully the comparative modernness of Economic science. Illustrate its special interest in the present day, and meet any objections.

4. In what sense, if any, are the following Wealth? Refer to the definition in each case:—a sovereign; a musical voice; a bank note; a mortgage; sunshine; the possession of Malta; Economic knowledge.

5. Explain the doctrines of the Physiocrats and the Mercantilists. What might be said to be the current corresponding error?

6. By the aid of an example explain Diminishing Utility; Marginal and Total Utility; Law of Variety.

7. What in your opinion are the chief causes of efficiency of English Labour? Point out directions in which it may be increased, *and* dangers, in comparison with other nations.

8. Briefly discuss and illustrate the terms: Unproductive labour; Necessary; Luxury. "The luxuries of one period become the necessaries of another." Explain this.

9. Trace out at length the advantages of machinery, and discuss the treatment of any evils contingent on its introduction.

10. Define Capital from the different points of view, as:—material and personal; productive; social; auxiliary; individual.

11. Criticize Mill's proposition that "Industry is limited by Capital."

12. Illustrate the functions and importance of Capital by reference to the Economic condition of:—England; India; Ireland, Australia.

13. Does the number of the population bear any necessary relation to the prosperity of the country? Describe what you would consider a healthy state of things as regards population.

14. Give some explanation of the views of Malthus on population, and the special bearing of his work upon the problems of his day.

15. What is meant by a Law of Manufactures? Discuss the conditions under which such a law is in operation.

16. Give some proofs of the Law of Diminishing Return, and indicate the scope of its action and its importance.

17. Under what conditions does economic rent *arise*, and under what conditions is it paid to a distinct person? Is rent merely an agricultural phenomenon?

18. How is rent related to cost? Criticize Ricardo's statement of the law of rent, and shew how rent is related to interest.

19. Define:—market value; normal value; perfect market; scarcity value; and illustrate by reference to different commodities.

20. What is meant by a Law of Supply and Demand? How does it operate? Take examples of:—land; fish; labour; a Strad violin; and a case of composite production.

21. Give an analysis of cost value, and remark on the tendencies of each factor to increase or diminish.

22. Explain the principle of Free Enterprise and its working in this country. Can England be called properly either Individualistic or Socialistic? Give reasons.

23. What are the evils for which State Socialism is offered as a remedy? Estimate its capacity to remove them.

24. Describe Laisser Faire, Competition, and their defects as principles of social life. Can Competition be dispensed with, and if so, how?

25. Give an analysis of what is usually included under "profits of capital." Indicate the tendencies to increase or diminish with regard to each factor.

26. What causes determine the rate of interest, and what forces affect those causes? Why does the rate of interest vary in different countries?

27. State briefly any distinctions and analogies between rent,

interest, and profit. "Profits tend to an equality." Show in what sense, if any, this is true.

28. "Wages can only rise at the expense of profits." "By so doing they will diminish capital, and ultimately lower wages again." Discuss the theory of wages here involved, and point out the errors of this statement.

29. How far does competition tend to bring about (a) equality and (b) inequality in wages? Give examples to show how wages are determined in different cases.

30. Name the most important circumstances which cause (a) the rate of wages to be higher or lower in one trade than another in the same country; (b) rates in the same trade to vary in different countries.

31. Under what circumstances (if any) can a Trade-Union raise the wages of its members in (a) a temporary, (b) a permanent manner?

32. Trade-Unions sometimes urge that production should be reduced to raise prices, and thereby wages; also that they can, by fixing wages, determine prices. Discuss these doctrines.

33. Discuss, with historical examples, the effects of attempts to fix wages by law. Is it more or less desirable to attempt to secure *by law* a satisfactory rate and fixed working day than formerly? State and examine the arguments for an Eight Hours' Bill.

34. Explain the terms Arbitration and Conciliation. What are the merits and defects of these methods? Describe the characteristics of the method of profit-sharing. What hinders its fuller development?

35. Discuss the difficulties and advantages of Co-operation in Distribution and in Production.

36. Examine at length the chief arguments in favour of the State (or Municipality) undertaking productive enterprises.

22167

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